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## **2000 Security Cooperation Conference “Perspective Is Everything”**

**By**

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### **PLENARY SESSIONS**

#### **Opening Remarks (Day One)**

As Lieutenant General Michael Davison, Director, Defense Security Cooperation Agency, opened the Second Annual Security Cooperation Conference in Crystal City on 10 July, he presented the theme “Perspective Is Everything” as an appropriate motto for the security cooperation community which finds itself confronted by myriad changes resulting from this new era of a global strategy accompanied by rapid changes in technology and new missions. (See General Davison’s complete remarks on page 73.) With perspective defined as viewing “relevant data in a meaningful way,” Diane Halvorsen, head of DSCA’s Reinvention Team, Mary Buehler also of the reinvention team, and Vanessa Murry, Director of DSCA’s Legislative and Public Affairs office, presented a symposium designed to illustrate the variety of perspectives held by the participants in developing and implementing security cooperation policy. Instead of a total reliance on plenary sessions as was done last year, the primary proceedings of the conference resulted from ten panel sessions on different topics conducted over the two days, with a plenary resume of the issues presented in each.



The leader of DSCA’s Reinvention Team, Diane Halvorsen, set up this year’s Security Cooperation Conference Perspective Is Everything.

#### **Opening Speaker (Day One)**

Former Ambassador Edward L. Peck, the opening day speaker, seized on the conference theme on perspective to deliver a primer on the verities and vagaries of international relations. He delivered a powerful, insightful, thought-provoking and humorous lesson, using his “Peck’s Postulates” to explain the four basic points that make every aspect of foreign affairs easily understandable.

First, there are no absolutes; perception is everything. It is not what we say or even what we do that matters. The only thing that matters is how the other parties perceive what we’re doing - because that is what controls how they react. Differing perceptions do not make one side wrong and the other right, but they do dictate what does or does not happen.



Lieutenant General Michael Davison, DSCA Director accompanies Ambassador Edward L. Peck whose primer on different perspectives in foreign policy opened the 2000 Security Cooperation Conference.

Second, there are only two things you can always depend upon sovereign nations doing.

- They will always behave as if they perceive themselves to be sovereign nations. This means they can do whatever they wish, and if another nation does not like it, they can do whatever they wish to affect a change,
- They will never ever do anything that they perceive not to be in their best interests,

Third, every international problem can be put into one of just three categories, if grouped solely based on who decides what to do about them,

- Unilateral issues, in which one country can make the decision all by itself. For example, the U.S. decides to break relations with Cuba,
- Multilateral issues, in which there is more than one participant and all must agree before a decision can be reached, e.g., the U.S. and Cuba decide to reestablish relations,
- Non-lateral issues, in which an outside party may have a great deal of interest, but is not directly involved in the decisions, e.g., the U.S. and the Arab-Israeli Issue.

Fourth, there is only one internationally recognized, universal explanation for every nation's foreign policies: "That's different." This explains why, for example, the U.S. can involve itself militarily in protecting the Kurds in Iraq, but only express mild concern over the harsher circumstances facing the Kurds in neighboring Turkey.

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## Evening Speaker (Day One)

As the speaker for the Monday evening dinner, Stephen French, the Minister (Defence Materiel) at the British Embassy in Washington. He offered the perspective of the United Kingdom but hoped that people would be able to draw wider parallels. In some instances, he addressed U.K. solutions. Stephen French recognized that size, political system, constitution are different, and it was therefore neither appropriate nor indeed possible to take some of these examples on board the U.S. or other systems, but perhaps they would strike chords and develop thoughts among other allies.



Stephen French, Minister for Defence Materiel of the British Embassy was the Monday dinner speaker.

The perspective of the United Kingdom is the perspective of an ally, not just the formality of treaty obligations, but a deep and multi-faceted relationship, sustained by many different interactions every day. At heart, the U.S. and the U.K. share a deep-rooted community of interest. This is very important as we are striving for the same goal, and French believed this to be true of all in the room. Sometimes this gets overlooked, and we concentrate on the differences and problems. Although these are important, we must remember that this is generally at the margin. However, a much smaller U.K. cannot do everything that the U.S. does.

Mr. French pointed out what security cooperation means among other things, mutual benefits and interoperability. This means more than buying American! He mentioned ways in which the United Kingdom can contribute to interoperability through available technology, different processes such as new ways of contracting and partnering with industry; and other capabilities and operational techniques learned through different national experiences. As an ally, they gladly offer these things to the U.S.

The following points defined the British viewpoint of FMS reinvention:

- demonstrable delivery of concrete security benefits and meeting defined requirements,
- compliance with national parameters,
- value for money, an overarching priority that if not clearly being met, then we should not be pursuing FMS,
- a sophisticated customer.

In procurement terms, we fully understand that there will be differences in national contracting practices, but we have expectations of certainties in timing of delivery and payments, assuredness of stewardship of our taxpayers' funds. We are increasing emphasis on levels of personal accountability in the U.K. Both public and Parliament are more often asking the question

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“who is responsible?” We cannot abrogate our national responsibilities by saying ‘the U.S. system does not allow us to respond’ to this question. We need transparency, visibility and assurance in the system.

Mr. French pointed out that the U.K. also has political oversight from a higher authority known as Parliament.

In terms of a legal background, defense procurement and operations in the U.K. do not have a substantial legislative framework. This means that they can be more flexible, provided formal cases for change are put to officials. However, where there are legislative hurdles, they have to be strictly adhered to.

Mr. French summarized that there is a need to set out and hold to responsibilities on both sides. This has been done between U.S. and U.K. in the Declaration of Principles signed by Secretary Cohen for the DoD, and by the U.K. Defense Secretary, Mr. Hoon, for the U.K. government earlier this year.

The U.K. has clear statement of where it wishes to go, that is, to achieve a relationship that recognizes in practice what it believes by heart to be the case: that the U.S. and U.K. trust each other implicitly as allies. The Declaration of Principles seeks to achieve this by reducing or removing unnecessary bureaucracy in our relationship such as visit restrictions, export restrictions, and import restrictions. In short, the U.K. has a vision of two nations working as close together as it is feasible to do, with the minimum of barriers to progress. It is recognized and accepted that, even after the Declaration of Principles, there will still be hurdles to overcome, but it is much better to define the hurdles, so it is where progress has to be made, and the consequences of not overcoming them.

#### Keynote Speaker (Day Two)

Deputy Secretary of Defense Rudy de Leon opened the second day of the symposium with four principles to guide our security cooperation efforts. First, there should be no doubt about the importance of security cooperation programs like foreign military sales (FMS). Recent events in NATO, in the Republic of Korea, and in the United Arab Emirates show that security assistance can directly support our ability to shape the world and secure our interests. Second, there should be a commitment to change. This should not be just one flash of activity but commitment to the long haul to change mindsets, not just business plans. The third guiding principle is to remember the customer. By successfully filling the expectations of our FMS purchasers, we create the kind of partnerships that are necessary for our military coalitions. The last principle is to remember the war fighter. We must remind ourselves that all of our efforts in security cooperation are to build bridges to other country's militaries so that it will make it less likely that ours will have to be deployed. (See Secretary de Leon's complete speech on page 100).

#### PANELS

##### Contracting Panel (Day One)

Keith Webster, DSCA/PSD, moderated the panel on contracting issues. Panel members were Mike Mutty, OUSD(AT&L); Dirk Robinson, NAVAIR; Valerie Brown, Defense Contracting Management Agency (DCMA); Andrew Burt, Canadian Embassy; and Dominique Myers, F-16 Systems Program Office, Wright-Patterson AFB, OH.

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Mike Mutty, a specialist in foreign contracting policy, emphasized the need to get contracting officers involved in case development very early in the process. He explained that it is a common practice in Europe for customers to get unlimited data rights for black boxes, a requirement that can cause misunderstandings when dealing with U.S. contractors. He discussed several of the FMS reinvention initiatives relating to providing more information, including cost and pricing data, to the foreign customer during the contracting process.

Dirk Robinson pointed out that the U.S. must address the varying needs of countries during the case development process. Countries want different degrees of participation in negotiations. For example, his office has worked with Australian representatives in a “limited observer” status. His office is also asking contractors to provide certified price-based proposals.

Valerie Brown, who very recently assumed her position at Defense Contracting Management Agency (DCMA), reviewed the Defense Logistics Agency’s (DLA) role in supporting FMS. The Defense Contract Management Command (DCMC) was created in 1990 under DLA in order to present a single face to the defense industry, to develop uniform policies, to upgrade the performance of the contract administration services workforce, and to reduce costs of operation. In March 2000, the new Defense Contracting Management Agency was formed from DCMC. Defense Contracting Management Agency administers 325,000 contracts valued at \$852 billion at 900 separate locations worldwide. Defense Contracting Management Agency goal is to deliver great customer service. Defense Contracting Management Agency provides contract administration services (CAS) for contracts supporting foreign military sales, direct commercial sales, and foreign military financing (FMF) cases. Contract administration services are financed through a 1.5 percent surcharge on all articles and services procured on contract. Contract administration services provided through these kinds of contracts represent about 13 percent of the overall DCMC budget. Contractors selling defense articles through direct commercial sales contracts may request and pay for CAS from DCMA. The agency also provides audit services for FMF-funded commercial purchases, and has recently established an international and federal business office.

Andrew Burt of the Canadian Embassy provided a customer’s perspective. From his viewpoint, “not all that much,” has changed in the way FMS has been conducted over the past twenty years. He explained that customers must look at the business case aspects of each proposed sale. Because the new realities of the global economy put the U.S. in competition with other providers, the proposed LOA must provide “irrefutable evidence of value for money.” Most of the arms sales from the U.S. to Canada are conducted as direct commercial sales. Canada views FMS as a “premium service” that must be justified and defended to the politicians as the best approach. Canada wants greater disclosure and greater participation on behalf of customer countries, and greater acceptance of customer involvement from U.S. industry. Burt concluded his remarks with a request for a FMS system that is “better, faster, and cheaper.”

Dominique Myers, chief of the foreign contracting directorate for the F-16 program office, opened her remarks by stating that F-16s are flying in twenty-two countries. She described a situation where the customer country held the competition to choose a contractor, but the F-16 contracting team in support of this FMS contract had to be increased from seventeen to twenty-five contracting specialists because the customer and contractor did not provide enough detail up front to the government. The resulting configuration changes have created an overwhelming workload. In cases like this where the customer conducts the source selection and passes on the results to the U.S. government, more rigor must be required in the process. Issues of scope are

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involved, because the necessary level of detail is not being provided, and U.S. contracting officers don't have the data and tools they need to manage the contracts properly. Myers emphasized that no one size fits all for FMS reform initiatives, and that all contracts should not be fixed price. She also suggested that in the case of offsets, a Memorandum of Understanding should be established between the contractor and customer country in order to describe the specific requirements of the offset arrangement.

### Pricing Panel (Day One)

Jeanne Farmer of DSCA hosted the panel on the controversial subject of pricing. Kay O'Brien, formerly of the OSD comptroller, came out of retirement to participate in this panel. She noted that the rules are set by the Office of the Secretary of Defense Comptroller in line with the *Arms Export Control Act*. We do not have much latitude to change them. In general, pricing has been stable and has not changed much since 1977. Most of the problems being encountered are in the areas of billing and delivery performance. Improvement is needed in the calculation of the amount of the initial deposit, the use of letters of credit, and the proposal to use actual charges rather than cost pools for surcharges.

Virginia Caudill of DISAM noted that total package approach pricing takes time to develop a comprehensive program. We do the customer a disservice by not presenting life cycle costs when we present alternatives. Although the U.S. suffers the criticism of frequently raising prices, in many cases the customer's desired changes actually cause the delays and subsequent price increases. There is a lack of visibility to the customers in the application of surcharges, and as currently structured, the billing statement is inadequate in explaining them and is difficult to fix when there are errors. Most customers recognize the need for surcharges, but they cannot tell what they are getting for them. We still need to develop solutions for pricing of several areas of concern, including services, software, publications, and training delivered via distance learning mechanisms.

Pat Sullivan of Aerospace Industries Association, provided to the industry perspective on pricing transparency. Industry's concerns center on protecting proprietary rights of the manufacturers. He emphasized that, as far as industry is concerned, cost is proprietary information which industry is reluctant to share with the purchaser. Providing of price data, however, is more palatable and thus more feasible. Transparency depends on various things: customer trust; seriousness of the inquiry, a good definition of requirements; and the time allowed to respond, and the costs associated with the effort. Not-to-exceed or firm fixed price quotations are very difficult to prepare because of the risk and the cost. This requires a lengthy process to develop the letter of request. Consequently this approach should be the exception, not the rule.

Noel Lacey of the Defense Logistics Agency gave a brief explanation of the components of the defense working capital fund and how these affect FMS pricing.

Representing the Javelin program office of the Army's Aviation and Missile Command, Don Ebert gave examples of how the Army gives transparency in the letter of offer with regard to prices. By tracking the additive costs on the LOA, line by line, AMCOM can share these data with the customer.

Mike Newman of the British Embassy pointed out that from the customer's perspective, there were three main issues in desiring transparency in pricing. The first is to make informed decisions about the weapon systems to buy and then throughout the program, to minimize

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surprises that may occur as prices change. They need to justify the program to their superiors, both political and within the Ministry of Defense. By participating in the pricing and debates, the customer is assured that the prices are reasonable.



On the Pricing Panel, Mike Newman of the British Embassy, Pat Sullivan of Aerospace Industries Association, and Noel Lacey of Defense Logistics Agency discussed the implications of firm fixed price and not-to-exceed LOAs.

Mike Patterson of DSCA offered the results of a DSCA study on firm fixed price LOAs. Since 1950, an examination of closed cases shows that the prices have been overestimated by about twelve percent. This alone confirms complaints of many customers about having excessive funds tied up in the trust fund. Firm fixed price for stock items is feasible and should be used when appropriate. Pursuing bottom-line firm fixed price LOAs would require legislative change. This avenue will be employed only if the interest level in doing so increases dramatically. Because of the large amount of work involved in the preparation of a not-to-exceed LOA, this preparation should be funded separately on an upfront LOA when the purchase is from a single known source and should be done on an exception basis. In international competitions, the U.S. government will support not-to exceed LOAs without requiring a support case to fund the up front workload. Again, this should be done on an exception basis.

One main point emphasized was that in a September 13, 1999 memorandum, DSCA specifically authorized the release of selected pricing data. According to the memorandum, "This detailed pricing information may be provided with the LOA if desired by the customer. Available reports identifying these costs may also be provided as requested. It should be noted that these price break-outs should only include U.S. government pricing data—contract data may contain proprietary information and should be reviewed on a case-by-case basis with the respective contractor to determine what may be related." Pricing information is available from the Defense Security Assistance Management System (DSAMS) through either report 65 or 69.

#### Budget Preparation Panel (Day One)

In a session devoted to budget preparation, Captain Tom Keithly of Navy International Program Office moderated a panel consisting of Jim McQuality, DSCA Comptroller, Rick Alpaugh, Deputy to the Commander of USASAC, Joe Bowab of the Department of State, James

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Nix of Office of Management and Budget, Captain Gregg Jackson from Joint Chiefs of Staff, and Marshall Billingslea of the Senate Foreign Relations Committee Staff.



Captain Gregg Jackson, USN of JCS, Jim McQuality of DSCA, and Rick Alpaugh of USASAC discussed how the security cooperation budget is created and how sales relate to the ceiling imposed on expenditures of the administrative surcharges.

The basic issue addressed by this panel concerns the question of dividing the administrative surcharge pie. There are initiatives that would revitalize the FMS administrative budgetary process by providing a framework linking program objectives, resource allocations, and costs. DSCA is implementing a new performance based budget (PPB) system for the FMS administrative fund. This budget would borrow elements of the planning, programming and budgeting system (PPBS) by relating budget resources to performance objectives in six areas: pre-LOA, LOA development, case execution, case closure, other security cooperation, and organizational support. The proposal is to implement some elements of PPB in FY01 with full implementation to occur in FY02.

The Joint Chiefs of Staff's role in foreign military sales is essentially in policy development, not in execution. In discussing the foreign operations budget, Joint Chiefs of Staff represents the regional war-fighting commanders in chiefs with respect to the foreign military funds and IMET budgets. The Joint Chiefs of Staff tries to influence non-DoD budgets through Office of Management and Budget, and State. The idea is to tie foreign military funds and IMET to a long-range plan, the three-year period in the theater engagement plan. It is necessary to link the budget request to the unified commanders' objectives such as impact on access, coalition building, interoperability, equipment modernization, and regional stability. Thus, the regional commander-in-chief attempts to obtain what is necessary to build a credible force to accomplish missions without U.S. forces being involved.

The Department of State is responsible for the international affairs or the 150 account budget. While this is relatively small in contrast to the DoD budget, it is big for the State



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Department, being in the \$22-25 billion dollar range. Of this three to four billion dollars is military assistance. This latter figure is what the military is interested in. In the past, the Annual Integrated Assessment of Security Assistance was used to identify military programs requirements, but this has fallen by the wayside. The new process, which has been in effect for the last couple of years, takes the mission program planning guidance from State and tries to coordinate it with the regional commander-in-chief's theater engagement plan to give a military perspective to support a war fighting strategy. The State bureau performance plan combines inputs of the country teams and integrates them into the regional bureau plan. This is then briefed to the Secretary of State on the total needed to support a regional foreign policy. Applicable executive branches are invited to participate in the deliberations. The amount of money requested by the country teams has gone to Office of Management and Budget, with Department of State support of the submission. However, countries do not usually get the full amount requested. In order for this to happen, there must be a better job of justifying programs to get greater Congressional support. Better planning would be beneficial.

From the Office of Management and Budget perspective, program justification is key. Competition exists within the 150 account budget. The entire 150 account is a dangerous budget environment. From the Senate's point of view, security assistance could be a valuable tool of foreign policy, but it is not being taken advantage of to the extent possible. Threats to countries are increasing, and some of these might be met by security assistance. There are many countries that want a relationship with the U.S. but cannot afford to pay for it. Today, about 98 percent of foreign military financing goes to only three countries. The Senate wants an annual preparation of a security assistance strategy to accompany the foreign aid bill. This would be a multi-year plan instead of today's piecemeal presentation. Today, the impression is that security assistance is used as a political handout to whomever is in the limelight when money is being passed out. Although, security assistance is an integral part of foreign policy, there are no benchmarks against which programs can be measured, and no program objectives by country to say how the money requested would support this strategy. The Foreign Relations Committee wants this justification in terms of supportable objectives. If the State Department could come up with a programmatic approach, this would bolster congressional support.

#### Business Measures Panel (Day One)

The panel on business measures started with a tutorial given by Craig White of KPMG. He explained that the purpose of business measurement is to motivate and measure desired behavior in an organization. Although typically only a few measures are needed, there is a tendency today to collect far too many, since with today's technology you can easily manipulate many measures. First he identified the qualities of world-class measurement system and then identified the attributes of a good business measure. He looked at types of measurements such as raw data indicators, external output measures, and internal process measures. He looked at measuring targets, goals, and standards that must be attainable. The tutorial ended with a presentation of the balanced scorecard concept, in which performance is measured, in four quadrants: financial, customer, internal processes, and organizational learning.

David Robinson, OSD/PA&E, talked about the performance contract between defense agencies and the Defense Management Council, which consists of the Deputy Secretary of Defense and the Under Secretaries. In terms of metrics, the required performance contracts are looking at cost, quality, customer satisfaction, benchmarking, and reinvention. These contracts are not done in a vacuum. The Joint Chiefs of Staff, the DoD staff and agency staffs are all involved

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in creating the contract or performance plan. These contracts are all tied to the *Government Performance and Results Act*. Consequently, they are tied to agency strategic plans and directly into the various business areas.

Bob Keltz, Deputy Director of DSCA, noted that business measurement was necessary for effective stewardship of the funds and processes of DSCA's five core competencies:

- Education
- Humanitarian affairs and demining
- Financial management
- Automation
- Foreign military sales

Since these are all separate business areas, they should have separate sets of metrics. In foreign military sales, four metrics:

- Letter of offer and acceptance preparation
- Processing supply discrepancy requests
- Case closure
- Shipped with delivery not reported

They are exploring whether others should exist.



A panel of Craig White of KPMG, Steve Hyland of Australia, and Bob Keltz of DSCA introduced business measures relating to security cooperation and why they are important.

Mr. Keltz admitted that the word reinvention should not be used to develop metrics, since this somehow implies a time finite procedure, but rather they should emphasize continuous process improvement. In those instances where U.S. foreign policy interest are served, success is growing the U.S. market share whether by giving support for foreign military sales, direct commercial sales, or some hybrid mechanism. The issue is not one of which method is better, but whether the United States is a reliable, cost-effective supplier of defense items.

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Steve Hyland from Australia noted that cost, adherence to schedule, and case closure were the biggest metrics that his government, as an FMS customer, pay attention to. In a commercial project, the buyer has insight into and influence over these areas. In foreign military sales, this is not the case, and there is no recourse against the producer for failing to comply with cost, schedule and case closure requirements. Consequently, the FMS customer would prefer more insight into the FMS process. By and large, foreign military sales is going well. There are over 600 open cases, but the difficult cases are symptoms of deeper problems. Normally they would not make such a big deal of letters of acceptance processing times, since direct commercial sales would be about the same. It would take approximately three months to issue their request for proposal, and then another six-nine months to evaluate it. The real concern is having insight into the program to see if alternatives could be explored when something goes wrong. The higher up in the hierarchy that you go, the problems become more meaningful. Thus, bad experiences all are more striking.

#### Export Controls Panel (Day One)

The Export Controls panel was moderated by Ed Ross of DSCA, and consisted of Pam Frazier of the Department of State, Susan Ludlow-MacMurray of OUSD(P)/PS, Colonel Kevin O'Connor of DSCA, John Isbell of the Department of Commerce, and Joel Johnson of the Aerospace Industries Association. Pam Frazier led off with a presentation on the Joint State-DoD "Defense Trade Security Initiative (DTSI)." The DTSI involves several changes to the *International Traffic in Arms Regulation (ITAR)*, principally in the area of streamlined licensing reform. This includes such things as:

- Creating new license authorizations
- Expanding the scope of existing licensing practices
- Enhancing ITAR exemptions (from getting a license)
- Improving transfers relative to government-to-government programs

More specifically, the DTSI involves seventeen proposals dealing with such matters as a single comprehensive license issued at the beginning of a project, increased use of multiple destination licenses, expedited license review for NATO transfers, and enhanced computer connectivity between the DoD and the State Department to permit more timely exchange of data on license applications. Frazier mentioned that the State Department was increasing its licensing staff by more than 50 percent.

With respect to the DTSI, Susan Ludlow-MacMurray noted that DoD has to also get its house in order and to decrease any licensing backlog within the Defense Department. The initiative has many positive features, such as focusing better control over those exports that need more attention, expediting the processing of those programs that the U.S. government wants to forward, and even utilizing other nations' control systems where in place. Building upon Ludlow-MacMurray's observations, Colonel Kevin O'Connor commented that there was, indeed, heightened awareness of the need for greater export license process discipline. The OUSD(P)/PS-sponsored international programs security management courses will continue to focus additional attention on process-related matters.

The export controls discussion then turned to foreign military sales vis-a-vis direct commercial sales. According to Colonel O'Connor of the DSCA Weapons Division, sometimes it

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is not possible to have a completely commercial sale; rather the situation may call for a hybrid of both FMS and commercial sale processes. O'Connor then briefly addressed the international competition issue, a matter of significant interest to the DSCA Weapons Division which, in turn, tries to advance a level playing field among U.S. defense equipment manufacturers that are competitively vying for the same defense export sale. He noted that the government advocacy issue, i.e., support of a U.S. manufacturer in competition with a foreign manufacturer, is no longer so clear cut. Rather, as a result of the globalization of defense industry, major U.S. subcontractors on foreign contract offerings are now seeking a voice similar to that of U.S. prime contractors. International customers, too, have their own constituencies in terms of demands for third-party transfers of U.S. systems as well as technology, offset, and co-production requirements.

John Isbell indicated that the Department of Commerce did many of its reforms in the early 1990s. The results were substantial: Commerce saw its licensing requests drop from 100,000 to about 9,000. Joel Johnson then sized up the U.S. government licensing initiatives as constituting great progress, but there are still many issues to be resolved. For instance, if exemptions become country-specific, then program licenses may become more desirable. The increased State DoD effort to shorten license turnaround time in terms of established time limits is noble, but this may cause too many license provisos, thereby creating another set of problems. With respect to the periodic review of the U.S. munitions list for currency, the review should not only be vertical (e.g., fighter aircraft category) in nature but also involve a horizontal scrub of the associated items under a particular category. Johnson noted that industry must do a better job of getting certain information incorporated into FMS contracts and in establishing a paper trail on program licenses in order to respond to potential State Department inquiries at a later date.

#### Information Technology Panel (Day Two)

Mark Sher, DSCA's chief information officer, introduced the panel with a description of the on-going initiatives surrounding the use of information technology in the security cooperation arena. Dave Carey of DISAM presented the current status of the Security Assistance Network and introduced the procedures by which foreign purchasers could get access to the new International Security Assistance Network. By employing the latter, a country can work as a team with the security assistance organization in managing the country's training program. The central focus of security cooperation information technology efforts is Defense Security Assistance Management System (DSAMS). Kent Wiggins, DSCA's DSAMS program manager, gave the current status on the myriad aspects of the project. Of special interest was the ability to create customized reports, which Wiggins indicated was possible using additional software. Jean Wilson of DFAS Denver described her project to merge information from various accounting systems into a central database which in turn would be fed by DSAMS and other service financial systems. From the Office of the Undersecretary of Defense for Policy, Ronnie Larson spoke about a new effort to build a more comprehensive system which could be used in processing foreign disclosure requests. In order to complete this integrated system, personnel would be drawn from the Departments of State, Commerce, and Defense. This system would also be used in tracking foreign visitors to the U.S.

#### Policy Development and Implementation Panel (Day Two)

In discussing the problems of development and implementation of policy as part of FMS reinvention, Beth Baker of DSCA presented a clever and insightful parable based on the children's book about the "Little Engine That Could." As the policy train loaded with ideas

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started up the hill, there were lots of people in the back cars to contribute ideas, that is, to “help”. In reality, there are too many people helping and this actually slowed the engine down and the policy train had trouble getting up the hill. People on the side of the track lines were encouraging, shouting recommendations and advice. Some advised the engine to get rid of some of the people in the back cars because they were causing delays and would prevent the engine from getting anywhere. Halfway up the hill, the tracks were re-engineered. The senior engineers decided to make changes, and the engine no longer fit on the tracks. The policy train decided to continue anyway. So they changed some wheels, took some time, and reconsidered some of the people in the back. Meanwhile, a larger train came by with higher speed priorities and pushed the policy train off the tracks, but the train continued. The force of the blow actually advanced the little train. Finally the train made it to the top, but most of the folks in the back had either jumped off, or were dissatisfied with the train, because too many other things had changed. They either thought it was too little or too late, or not what had been initially proposed.



Leading the discussion on the difficulties in policy development and implementation were Beth Baker of DSCA, Craig Hunter of DUSA-IA, and Larry Baillie of Navy IPO.

Baker’s tale summarized the many frustrations with rule changes, impacts from other programs and initiatives and competing priorities. Still, she is current working on a variety of vexatious policy issues: a change to the SAMM to comply with the acquisition policies as to what offset costs are allowable; audits to comply with end-use monitoring; interpretations of LOAs as to whether they are “cradle to grave” or not, and considering whether this is possible and what the cost might be; assuring consistency in the use of program management lines on LOAs within the military departments; and LOA quality which is incorporated into Defense Security Assistance Management System (DSAMS) standardization.

Hunter of DUSA/IA described the impacts of security assistance policy on the functional side of the Army. In generating security assistance policies, it is necessary to account for the constraints of internal Army policies and automated systems that are devoted to improving the war-fighting capability of the Army. The international business is more complex, however, since the laws effectively are the mechanisms driving policy. The interagency effort, including the

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Department of State (DoS) and Congress, makes policy-making much more difficult. Since the services are at the bottom of the food chain and can only directly deal with the weapon systems critics must take into account downhill slope from laws governing security cooperation to the Department of State to the military departments. Department of Defense is not in charge of security assistance; it is only driven by DoS policies.

In policy-making, one size does not fit all. There must be a selective application of requirements. The implementation of policy in the international arena is subject to too many variables, thus there is a lack of latitude at the Army level. We are not arms merchants; we are an extension of foreign policy, that is, foreign policy implementers. This is not a business. International decisions take affairs out of our hands. Until a decision is made to sell, the government's foreign policy perspective is more important than the Army's more insular views.

Hunter noted several policy challenges facing the Army. First is the rise of direct commercial sales with respect to FMS. Today there are more direct sales than ever, with larger sales of first-line weapons systems. The question is how does the Army support these without using FMS administrative funds? How do you get reimbursement for your efforts now that we have agreed that a government partnership with industry is indispensable, regardless of the mechanism of the sale itself? Next is the challenge of industrial globalization. In the past, the rule has been not to offer government support to a U.S. competitor in a foreign sale. Today, however, with a variety of transatlantic mergers and other industrial joint ventures, what is an American industry? What if a foreign product has more U.S. content than that sold by an American firm? Can we endorse U.S. content in a foreign product? What now should be the Army's position on advocacy? Similarly, Hunter pointed out the dilemma in disclosure and technology transfer when we impose our controls over American exporters of systems and technology from other countries. Finally, he noted that funding is necessary to implement policy changes.

In summary, Hunter's perspectives in policy mean that one policy does not work for everyone; policy must be a cooperative effort, with everyone participating even if they do not agree. Also, all parties should use more common sense and logically evaluate the new circumstances in which we are operating.

Representing the Navy International Program Office, Larry Baillie emphasized that Navy policy has a very formalized process using the Technology Transfer and Security Curriculum Review Board (TSARB) for which Navy IPO is the executive agent. Thus, issues are resolved at a high level before the program begins execution. At this level, the concerns are mostly weapon system policy. DoD policies are set by DSCA and Defense Finance and Accounting Service and must be adhered to. Navy IPO works with DSCA to provide inputs. Baillie also noted that in the past there were only two or three policy letters a year and it was easy to keep up and to teach people how to follow the policies. But times have changed. Today we are seeing one or two policy memos a month. Since the staff has been cut back, today policy resources are used in negotiating policies with DSCA, not teaching what the new policies are and how they are to be implemented.

Patrick Fox of SAF/IA commented that, in setting policy, the Air Force had to deal with many levels such as DSCA, OMB, State, and the military departments. While everyone is reinventing, proposed policies must still be integrated, but the many changes make this difficult to accomplish. The impacts of policy changes have to be reviewed in terms of function, process, personnel, and automated systems. Implementers put their own spin on issues, and it becomes difficult to discriminate between what are truly policies and what are procedures. Typically it is

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easy to change the processes and procedures which you own, but where the policies apply to procedures that you do not own, these are harder to deal with. Since the new policies drive new procedures and processes, there is the need to create more handbooks, web sites, and computer-based training, to insure that those implementing these procedures are well trained. With lots of policy initiatives at all levels, it appears to many that chaos reigns. However, policy is not being developed in a vacuum; it is usually coordinated among all the relevant parties.

Lieutenant Colonel Kevin Clarke, USA, from the U.S. Pacific Command commented on the Euro-centric focus of the symposium. Although the unified commanders do not make security assistance policy, the commanders in chiefs have an interest in and contribute to policy from their perspective. This view stresses an interest in relationships with other countries to cultivate access and influence and to develop coalition interests such as interoperability. By using security assistance tools, we can encourage how our allies equip, train, sustain, exercise and execute their missions. The unified commands use training to maximize the opportunities to develop relationships. Since the regional commanders in chief cannot tell any country what to do, security assistance is used as a carrot to encourage behavior that improves our mutual security. The theater engagement plan is what the commanders-in-chief wishes to see happen in a country, but the country itself has to agree. Where U.S. funding is involved, everyone else in the security assistance community also has to agree in order to make the plan a reality.

General Davison commented on the health of the FMS administrative funds and the difficulty with the annual Congressional cap on using the money that is collected on each case. DSCA is working with OMB to lift it so that more funds can be used in the support of security cooperation programs. DSCA is still trying to determine the right size of the workforce. Baseline necessary and no growth is projected. There will be enough money to cover pay raises and inflation only. In order to justify our efforts, the cost of activities must become part of the budget process. This will permit us to quantify our requirements more accurately on program management lines. In any event, there will be more money for the services for case closure.

#### New FMS Environment Panel (Day Two)

Cliff Crivello of USASAC led the discussion of the “New FMS Environment.” Panel members included Gibson LeBoeuf, Navy IPO; Willard Mitchell, SAF/IA; Robert Keltz, DSCA; Werner Kaelin, Swiss Embassy; and Joel Johnson, Aerospace Industries Association.

Gibson LeBoeuf described how the DSCA strategic goals and the goals of his boss, the Assistant Secretary of the Navy for Research, Development, and Acquisition, are complementary and support four main initiatives: improving the business process, providing better support for the war-fighter, developing resource management methods that are cheaper and more effective, and making Navy IPO people smarter. For example, Navy IPO is applying the TEAM USA concept, (see page 66 of this *Journal*) a hybrid cooperative effort between the U.S., customer countries, and U.S. industry to several programs, including the Predator and the Chilean frigate. The Navy IPO is also developing a country program director’s handbook and increasing training opportunities for its personnel. Other initiatives include the use of Navy acquisition interns and pay banding, whereby compensation is determined according to an individual’s contribution to the mission within certain set limits.

Willard Mitchell explained how the nature of business with friends and allies is changing: there is no more “pure” FMS or direct commercial sales (DCS). The U.S. must provide support

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to licensing efforts and technology transfer reviews. Because the U.S. Air Force is evolving into an expeditionary air force, we must build relationships around the world to support that force. Among other requirements, we must achieve access to airfields and interoperability with allied air forces. Our allied partners around the world want to acquire the combat capabilities demonstrated by the U.S., so we must streamline the FMS process so it is timely, transparent, and delivers the necessary capabilities.

Robert Keltz listed some key agenda items for DSCA over the next year. He affirmed that the FMS administrative fund is stronger now than it was before the fee was reduced from 3 percent to 2.5 percent, and promised that DSCA intends to stay the course with the 2.5 percent administrative fee. The DSCA goal is to sustain a steady state for the security cooperation workforce, absorbing the inflation in civilian and military pay, with no more job cuts in the foreseeable future. DSCA plans to devote more attention to offset issues, since *Arms Export Control Act* (AECA), Section 36(b), notifications to Congress require generic descriptions of offset agreements, and the first Congressional hold was placed on a 36(b) notification in July 2000 as a result of the offset information required. In addition, the issue of what exactly constitutes offset costs is currently part of a high-level policy debate in OSD. Other issues of concern to DSCA include end-use monitoring, transparency in contracting, the *Defense Trade Security Initiative*, and the likely delay in Section 36(b) notification processing as a result of the election year and change in Presidential administrations. Keltz concluded his remarks with the promise that DSCA will be spending a lot of time on customer outreach.

Werner Kaelin of the Swiss Embassy began his remarks by stating that he was very encouraged by the new Defense Trade Security Initiative. He then listed some customer country expectations relating to the new FMS environment. Country program directors should act as advocates for their customer countries, providing assistance in writing Letters of Request and in defining case requirements. Country directors should provide customer satisfaction and total quality management. The U.S. should help facilitate co-production agreements and promote hybrid cases and not-to-exceed pricing. The U.S. should also recognize that foreign procurements help sustain the U.S. defense industrial base and endure that field commands understand and implement FMS reinvention initiatives. U.S. representatives should review price and production schedules with the customer countries and promote customer country participation in case development. According to Kaelin, the DoD needs to change its attitude towards case closure, since customer funds are being withheld without interest payments. The case manager should establish a timeline for case closure and prepare for that event throughout the life of the case. The U.S. should understand that customer nations are committed to FMS reinvention.

Joel Johnson provided the industry viewpoint of security cooperation issues. He explained that today's market is a buyers' market; buyers are smarter, and the world arms market is relatively flat. The U.S. currently has about 40 percent of the world market, a share that could be greatly affected by events in Europe over the next decade. Furthermore, the U.S. has served FMS customers for at least 15 to 20 years, and those customers are knowledgeable. The FMS contracting effort ought to look like a commercial contracting effort as much as possible; i.e., price breakdowns need to be given. Other industry concerns include offsets and technology transfer issues, and dealing with the Defense Threat Reduction Agency.



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## Interagency Relationships Panel (Day Two)

Keith Webster, Director of DSCA's Program Support Directorate, chaired a session looking at the importance of interagency relationships in conducting security cooperation business. Pam Frazier of the Department of State opened with a discussion of the State Department's role chairing the National Disclosure Policy Committee. When approving the disclosure of technology, the U.S. government is in essence, willing to authorize a marketing license. There are concerns that the disclosure technology gives the signal that the U.S. government would likely approve the actual transfer itself. State, however, looks at other issues such as regional concerns and conventional arms transfers in making its decision. Each year about 2,100 cases go to Congress under the reporting framework of Section 36(b), *Arms Export Control Act*. About two percent represent any kind of problem. Why is the reporting threshold as low as \$14 million? Frazier claims that this is the price of an A-4 squadron in the early 1980s. Still, Congress wants to lower the threshold, not to raise it. With the co-mingling of research and development and foreign military sales as well as hybrids of direct commercial and foreign military sales, these transfers are going to receive greater scrutiny. As DoD gets more creative, Congress wants more information. Also, there are frequent delays in getting to Congress because there a lot of days when Congress is not in session.

Karma Job of DSCA noted that there are large numbers of checks and balances to make sure that the transfers are in the best interests of the United States. An effort is made resolve any differences, and she pointed out that the key to interagency efficiency is often personal relationships. Mike MacMurray of the office of the Assistant Secretary of Defense for Special Operations and Low Intensity Conflict talked about the need to build bilateral relationships with all the agencies he deals with. He noted that it is necessary to know the agency's culture, because the different services, even different parts of State, approach things differently. Individual differences are often greater than agency differences. Mike Richie of DSCA's Humanitarian Affairs and Demining Directorate noted differences in his operations depending on whether it was concerned with disaster relief, humanitarian assistance, or demining.



Mike MacMurray from ASD/SOLIC, Mike Richie of DSCA, and Bill Denk from the Department of Commerce gave their perspectives on agency interactions regarding security cooperation.

Bill Denk of the Commerce Department spoke at length about the departmental role in reviewing defense memoranda of understanding including reciprocal agreements, foreign procurement, production, services, and research and development. In all cases, the impact on the

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U.S. industrial base is issue that needs to be addressed. Bill Denk thinks that there is a growing imbalance in the use of memorandum of understanding because we are giving away more than we are getting. With the possibility of excess defense articles displacing new sales in the market, the Department of Commerce is now involved in the dialogue and has been added to the review process for transfers of EDA. They do not want everyone in the field telling countries that they can have EDA without thinking about the impact on new sales or on the industrial base. The Department of Commerce does promote defense sales, and they work closely with State Department to ensure that licenses are in place before advocating that a sale proceed. Within defense trade policy, Commerce is not just concerned about export control policy but with reciprocal memorandum of understanding. Commerce has also started to see the Section 36(b) *Reports On Offsets*, and they are concerned about what kind of multipliers is being offered to settle offset requirements.

With regard to the interagency process of LOA development and implementation, General Davison noted that we are revising the metrics on the LOA process. In order to start processing we need a complete letter of request from the purchaser. Today our policy of completing the LOA in 60 days is too optimistic, and consequently we have built up the countries' expectations. We simply cannot get through the interagency process in this time. Now we are thinking about 120 days, for LORs without revisions. We will probably establish a target percentage that can be done within 120 days. However, sixty days is a pipe dream. Lieutenant General Davison also commented on the Section 36(b) Congressional reporting process. Department of Defense makes every effort to deliver the packages to the State Department but then they must worry about the Congressional calendar. Moreover, the purchaser country has its own budget windows, and is often needed to spend money or to use a specific contract already in effect. Brian Knapp of DSCA commented from the audience that Congress is going to want more oversight. As he pointed out, is however, there are some obstacles to this. For example, in one area of the State Department, a single person negotiates with both the authorization and appropriations committees of Congress. Consequently during the budget cycle, little else moves from this office. Pam Frazier commented that it is a rare case when somewhat objects either to the program or to the amount of money. In many instances, members of authorization committees are traveling and cannot be consulted on the case. The State Department depends on the committee chairman, and it must be willing to make some trade-offs.

### Training Panel (Day Two)

Freda Lodge led a discussion of training initiatives for international customers as well as members of the security cooperation workforce. Panel members were Rita Verry, DSCA; Lt Col Erich Eschenburg, SAF/IA; Elena Kim-Mitchell, State Department; Larry Mortsolf, DISAM; and Terry Bates, SAF/IA.

Rita Verry, who manages training policy issues for DSCA, explained that, as a result of the Expanded International Military Education and Training (E-IMET) summit held in February 1999, the Defense Institute of International Legal Studies is now part of DSCA. Also, DSCA is leading the security assistance distance learning working group and participating with the OSD distance learning working group to develop distance learning programs for international customers, with contract support.

Lieutenant Colonel Eschenburg explained the U.S. Air Force goal of conducting international training to meet the customer's requirements and to support self-sufficiency.

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Lieutenant Colonel Eschenburg emphasized the need to train the right people, given limited quotas, and to maximize the use of training resources, especially those related to flight training. Because quotas are limited and the need for training is great, it may be appropriate to use distance education to supplement, but not replace, traditional resident education, in order to reach a wider audience.



The Training Panel of Elena Kim-Mitchell of the Department of State, Lt Col Erich Eschenburg of SAF/IA, and Rita Verry of DSCA offered their impressions of how international training is provided and the possibility of changes on the horizon.

Elena Kim-Mitchell noted that International Military Education and Training (IMET) programs are funded from the State Department's international affairs budget. Two priorities for the State Department role in IMET programs are to promote military-to-military contacts and to promote the capabilities of U.S. friends and allies. IMET is viewed as a strong mechanism for promoting democracy. Although IMET is the smallest security assistance budget issue for the State Department, it receives intense congressional oversight and is subject to a wide disparity of views, including possible conflicts with other foreign policy goals.



Among the international delegations was that from Kuwait, including Lt Col Abdulateef Haider, CDR Keith Marchbanks, SC, USN of OMC Kuwait, Brigadier Abdulla Al-Dakheel, Chief of Budget of the Kuwait Armed Forces, Lt Col Jasem Al-Obaid, and Col Mohammed Meteb.

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Larry Mortsolf summarized five professional development programs currently under development at DISAM. First, a faculty team is conducting a review and analysis of the security assistance workforce across all agencies and military services at the request of DSCA. The purpose of this study is to suggest some remedies to challenges caused by downsizing, lack of new hires, increased productivity demands, and the aging workforce. Second, as Lieutenant General Davison announced during his opening remarks at this conference, DSCA will recognize those individuals who take a certain combination of security cooperation courses and have at least three years of related job experience through the award of three certificates: the defense security cooperation career professional certificate, the international certificate, or the training manager certificate. This certificate program is jointly supported by the Defense Security Cooperation Agency, the Defense Institute of Security Assistance Management, and the National Defense Industrial Association (NDIA). Third, members of the Defense acquisition workforce who complete DISAM courses are eligible to earn continuous learning points under the policy announced by Jacques S. Gansler, Under Secretary of Defense (Acquisition, Technology, and Logistics) (USD(AT&L)), in December 1998. Jacques S. Gansler's policy, entitled "Reform Through Learning: USD(AT&L) Policy on Continuous Learning for the Defense Acquisition Workforce," applies to employees who have completed *Defense Acquisition Workforce Improvement Act* (DAWIA) certification requirements for the positions they hold, as well as to employees who are presently working to achieve certification. The "reform through learning" policy requires all Defense acquisition personnel to earn 80 "continuous learning" points (representing 80 hours) every two years by participating in a number of professional development activities. DISAM has reviewed the acquisition content of each of its courses. For example, the review of the CONUS (SAM-C) Course determined that it included 29 hours of acquisition-related instruction. Accordingly, graduates of the CONUS Course will earn 29 continuous learning points towards their required 80-point total. However, not every DISAM course is eligible for award of continuous learning points. See the table on the DISAM homepage for a list of the eligible courses and points to be awarded upon course completion, [http://disam.osd.mil/professional\\_dev/home.htm](http://disam.osd.mil/professional_dev/home.htm). Fourth, the American Council on Education recently awarded two DISAM courses three hours of undergraduate college credit in supply chain management: the CONUS Course (SAM-C) and the Overseas Course (SAM-O). Finally, DISAM is developing a number of specific courses and training modules to be offered in a distance learning format, via the internet or CD-ROM. For details about any of these professional development programs, see the DISAM home page at <http://disam.osd.mil/>.

Terry Bates described several SAF/IA initiatives that are outgrowths of the Air Force Reinvention efforts. After an audit was performed of the civilian positions in SAF/IA, the decision was made to reclassify them into the GS-130/131 "International Affairs" job series. A contractor-supported effort to prepare a career development plan for individuals in this job series will be completed in Fall 2000. SAF/IA's intention is to implement this change for eligible personnel across the Air Force, and eventually for all of the military services, under the auspices of DSCA.

## CLOSING

The DSCA 2000 Security Assistance Conference provided an opportunity for an open dialogue on security cooperation and associated reinvention initiatives. The plenary session speakers introduced a broad range of perspectives, and the panel sessions allowed a vast amount of defense security cooperation information to be broken down into smaller bites for detailed discussion. Within the panels, the following topics were collectively addressed:

- Contracting

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- Pricing
  - Budget preparation
  - Business measures
  - Export controls
  - Information technology
  - Policy development and implementation
  - New FMS environment
  - Interagency relationships
  - Training

The conference theme “Perspective is Everything” reinforced the truism that perceptions, even more than facts, can drive the views and opinions of customers and stakeholders alike. Hopefully, attendees left the conference with a clearer understanding of the many initiatives being pursued by the defense security cooperation community.